



## **Exploring the demand for agreed-upon procedures engagements and other services, and the implications for the IAASB's International Standards**

ICAEW welcomes the opportunity to comment on the Discussion Paper *Exploring the demand for agreed-upon procedures engagements and other services, and the implications for the IAASB's International Standards* published by IAASB on 29 November 2016, a copy of which is available from this [link](#).

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## MAJOR POINTS

1. We welcome this discussion paper which looks at the demand for agreed-upon procedures (AUP) engagements and considers the implications for ISRS 4400. We do not, however, consider that ISRS 4400 is broken and where it is applied sensibly we believe that it can be used for many financial and non-financial AUP engagements.
2. We are generally content with the overall approach taken by the working group to professional judgement and to independence. In relation to the independence statement we believe, however, that the standard needs to make it clear that this statement should be in a prominent position in the report and should provide an illustration of this.
3. We consider that one of the main problems arising with AUP in the UK stems from reporting demands of national regulators and other governmental organisations under the umbrella of an AUP engagement – mainly through lack of understanding and awareness of the limitations of AUP engagements. An update of this standard will not, of itself, resolve these issues, though it would certainly be a useful point of reference in discussions with these bodies.
4. ICAEW has worked with a number of regulators and government bodies to support the development of appropriate reporting frameworks to meet their needs and has issued both generic – and more specific - guidance to ICAEW members on performing these types of engagements (for example, ICAEW Technical Releases TECH10/12AAF *Reporting to Third Parties* and AAF 01/10 *Framework document for accountants' reports on grant claims*). More recently we have also published a paper *Audit v other forms of assurance* aimed at public sector bodies which explains the differences between the types of report that might be requested.
5. We, therefore, consider that it would be helpful to have some guidance in the standard about unclear and misleading terminology to provide practitioners with the ammunition to rebut some of the procedures or report wording being requested by third parties, for example, guidance which firmly discouraged the use of words such as audit, review and assurance. However, having overly strict guidance (or a ban on words) could lead to practitioners being prohibited from accepting certain engagements, with the result that the client would be unable to comply with the requirements imposed on them. It is also important to note here that terminology will impact the engagement terms as well as the report wording and any guidance added would need to address both.
6. Regarding the application of ISRS 4400 to non-financial subject matter, we understand that while some practitioners would have no problems applying this now, it might be helpful to update ISRS 4400 to reflect this option.
7. We believe that the reporting of factual findings should be clearly separated from any recommendations that the practitioner is making to the client. While we would prefer to see recommendations being provided in a separate report, we acknowledge that there may be certain situations where including the recommendations in an appendix to the AUP report might also have the desired effect.
8. While multi-scope engagements are increasing in frequency we do not believe that these pose too many challenges for practitioners if approached correctly. It would be helpful for the IAASB to provide non-authoritative guidance that clarifies the approach here but we do not see a need for more detailed guidance.

## RESPONSES TO SPECIFIC QUESTIONS

**Q1: Results from the Working Group's outreach indicate that many stakeholders are of the view that professional judgment has a role in an AUP engagement, particularly in the**

**context of performing the AUP engagement with professional competence and due care. However, the procedures in an AUP engagement should result in objectively verifiable factual findings not subjective opinions or conclusions. Is this consistent with your views on the role of professional judgment in an AUP engagement? If not, what are your views on the role of professional judgment in an AUP engagement?**

9. This is generally consistent with our views on the role of professional judgement in an AUP engagement. We believe that professional judgement has a role to play in terms of both client and engagement acceptance and continuance. It also has a role to play in determining and defining (and where necessary, redefining), in conjunction with the client (and other parties requesting the report), the procedures to be performed.
10. Assuming the scope of the AUP engagement has been clearly defined (and included in the engagement terms (and will be set out in the AUP report)) we consider that professional judgement should not then play a role in actually performing the procedures or interpreting the results.

**Q2: Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?**

11. In principle, we would not object to an introductory paragraph in the standard along the lines suggested by the Working group. We would caution against the inclusion of a more prescriptive set of requirements in the standard on professional judgement, however, as we believe that this could lead to the standard being too restrictive and practitioners unable to perform some engagements or to expectation gaps among those parties requesting AUP reports about the level of professional judgement exercised.

**Q3: What are your views regarding practitioner independence for AUP engagements? Would your views change if the AUP report is restricted to specific users?**

12. We believe that one of the main reasons why a client (or third party) would request an AUP report from a practitioner is because they want the procedures performed by someone sufficiently 'independent' from the client. Indeed, we often see national regulators and governmental organisations asking for AUP reports to be carried out by an independent practitioner (and practitioners are required to comply with the independence requirements of the IESBA Code).
13. We acknowledge, however, that there may also be instances, where, for example, a private report is commissioned and the client is happy to have a report from an accountant who wouldn't meet the independence requirements of the IESBA Code (and this is clearly stated on the report).
14. We therefore agree with the Working Group's current position – which reflects the existing approach in ISRS 4400 of requiring a statement in the AUP report where the practitioner is not independent. However, we believe that this statement needs to be given clear prominence in the report and the standard should include a requirement to this effect (with the illustrative report providing an example of how this should be done). We believe that this is particularly important, given that there is a chance that such a statement could be lost in the detail of a long-form report.

**Q4: What are your views regarding a prohibition on unclear or misleading terminology with related guidance about what unclear or misleading terminology means? Would your views change if the AUP report is restricted to specific users?**

15. We agree that unclear or misleading terminology presents a real problem for practitioners. Indeed, ICAEW has worked with a number of regulators and government bodies to help set up reporting frameworks to meet their needs and has issued both generic – and more specific - guidance to ICAEW members on performing these types of engagements (for example, ICAEW Technical Releases TECH10/12AAF *Reporting to Third Parties* and AAF 01/10

*Framework document for accountants' reports on grant claims*). More recently we have also published a paper *Audit v other forms of assurance* aimed at public sector bodies which explains the differences between the types of report that might be requested.

16. It would certainly, therefore, be helpful to have some guidance in the standard to provide practitioners with the ammunition to rebut some of the procedures or report wording being requested by third parties, for example, guidance which firmly discouraged the use of words such as audit, review and assurance.
17. This issue, however, can't be addressed by changes to the standard alone – and it requires engaging with and educating those who request/develop the procedures about the nature and scope of AUP engagements generally.
18. Also, having overly strict guidance (or a ban on words) could lead to practitioners being prohibited from accepting certain engagements, with the result that the client would be unable to comply with the requirements imposed on them.
19. Restrictions of the AUP report to certain users is irrelevant in this context and would only serve to create confusion about the scope and nature of AUP engagements.
20. It is important here, however, to note that terminology will impact the engagement terms as well as the report wording and any guidance added would need to address both.

**Q5: What are your views regarding clarifying that the scope of ISRS 4400 includes non-financial information, and developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information?**

**Q6: Are there any other matters that should be considered if the scope is clarified to include non-financial information?**

21. We agree that ISRS 4400 should address both financial and non-financial information. This is an area of increasing activity and it would be useful for practitioners to have more guidance here.
22. We strongly agree that ISRS 4400 should address the need for practitioners to consider whether they have the competence to perform agreed-upon procedures on non-financial information. This information could be highly technical or industry-specific.

**Q7: Do you agree with the Working Group's views that ISRS 4400 should be enhanced, as explained above, for the use of experts in AUP engagements? Why, or why not?**

23. Yes, while we consider that the use of experts in AUP engagements is probably not commonplace, we agree that it would be helpful to address this in ISRS 4400. In so doing, the Standard should be clear that:
  - The practitioner should not be simply outsourcing a substantial part of the engagement;
  - The practitioner needs to have sufficient competence to evaluate the expert's work; and
  - If the practitioner does not have sufficient competence both to do the majority of the AUP and to evaluate the expert's work, they should not be accepting the engagement.
24. Practitioners often use experts for areas of judgement on engagements. Given the working group's approach to the use of professional judgement in AUP engagements it is important to ensure that the inclusion of the use of experts in the standard doesn't therefore create confusion about the extent of judgement used on AUP engagements. A way of dealing with this might be to include an example in the standard of where an expert might be used.

**Q8: What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report?**

25. We believe that ISRS 4400 should include an illustration of the AUP reporting framework which highlights the key areas that need to be addressed in an AUP report and includes illustrative text for the more standardised sections of the report. We believe that the illustrative report should also include an example statement to be used where the practitioner is not independent. Given that the nature and scope of AUP varies considerably from engagement to engagement we do not see any real benefit in developing detailed illustrations of how procedures and findings might be documented in the report.

**Q9: Do you agree that the AUP report can be provided to a party that is not a signatory to the engagement letter as long as the party has a clear understanding of the AUP and the conditions of the engagement? If not, what are your views?**

26. We agree. A balance needs to be achieved here because if the standard is either too restrictive in distribution of the report or requires (or implies there is low risk in) a wide distribution, it will affect the practitioner's engagement acceptance decision and may make some engagements unacceptable.

27. We believe that the decision about who the AUP report should be made available to and under what circumstances is a risk management consideration for the practitioner and will depend on the nature of the engagement and the territory in which it is performed (as different territories have different litigation and risk profiles).

**Q10: In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not appropriate)? Please explain.**

**Q11: Are there any other approaches that the working group should consider?**

28. We consider that option (c) requiring the AUP report to include a statement to the effect that the reporting is intended solely for the specific users and may not be suitable for any other purposes is a practical way to manage the risk to the practitioner and can be applied across a broad range of AUP engagements.

29. But we also consider that options (a) and (c) are not mutually exclusive and that it is essential that they are not seen as such because in some AUP engagements (a) may be used in conjunction with (c) by practitioners. There should, therefore, be an element of flexibility in that option (c) should be required in any event but that, for example, option (a) may be explored further by practitioners as part of their risk management approach.

30. We are not aware of other approaches to this that the IAASB should consider.

**Q12: Do you agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings? Why or why not?**

**Q13: Are there any other areas in ISRS 4400 that need to be improved to clarify the value and limitations of an AUP engagement? If so, please specify the area(s) and your views as to how it can be improved.**

31. Yes we believe that recommendations should be clearly distinguished – and separated – from the report of factual findings on the procedures performed. Given the nature of AUP engagements (a factual findings report, based on predetermined procedures) there would generally be no expectation that the practitioner will have recommendations to offer though we acknowledge that, from time to time and depending on the nature of the engagement, recommendations may comprise an integral part of the client's needs and the practitioner may have some recommendations to make.

32. Given that an expectation gap already exists between practitioners and those who request AUP reports, such as national regulators and governmental organisations, about the nature of

AUP engagements we think it would be preferable if practitioners included recommendations in a separate report, but accept that in certain circumstances, a separate appendix might also achieve the desired result.

33. We are not aware of any other areas in ISRS 4400 that need to be improved to clarify value and limitations of an AUP engagement, other than those already picked up in our response.

**Q14: What are your views as to whether the IAASB needs to address multi-scope engagements, and how should this be done? For example, would non-authoritative guidance be useful in light of the emerging use of these types of engagements?**

**Q15: Do you agree with the Working Group's view that it should address issues within AUP engagements before it addresses multi-scope engagements?**

**Suggestions regarding the nature of guidance on multi-scope engagements you think would be helpful and any examples of multi-scope engagements of which you are aware will be welcome and will help to inform further deliberations.**

34. While multi-scope engagements are increasing in frequency, we do not consider the performance of these to be especially challenging as each element of a multi-scope engagement should be subject to its own individual standards (which could be, for example, ISAE 3000 or ISRS 4400). It is more a matter of recognising that the engagement has a number of distinct parts and then drawing on the relevant standard to address each part of the engagement and reporting on each part in line with these standards.
35. The IAASB could, therefore, usefully issue non-authoritative guidance which just clarifies this.